

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5183-01
Bill No.: SB 669
Subject: General Assembly; Judges; Retirement - State
Type: Original
Date: February 10, 2012

Bill Summary: Modifies the retirement benefit plans for judges, statewide elected officials and members of the general assembly who first take office on or after January 1, 2013.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	(\$11,973,269)	(\$12,217,209)	(\$10,491,808)
Total Estimated Net Effect on General Revenue Fund	(\$11,973,269)	(\$12,217,209)	(\$10,491,808)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Other State Funds	(\$11,973,269)	(\$12,355,842)	(\$10,491,808)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$11,973,269)	(\$12,355,842)	(\$10,491,808)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has not been filed with the Joint Committee on Public Employee Retirement. It would be impossible to accurately determine the fiscal impact of this proposed legislation without the actuarial cost statement prepared in accordance with Section 105.665, RSMo.

Officials from the **State Treasurer’s Office, Secretary of State’s Office, Missouri Senate, Missouri House of Representatives** and **State Auditor’s Office** assume no fiscal impact to their agency.

Officials from the **Governor’s Office** assume there should be no added cost to their office as a result of this measure.

Officials from the **Missouri State Employees’ Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note. 5183-01 (SB 669) would, if enacted, eliminate the defined benefit retirement plan for members of the general assembly, statewide elected officials and judges who first take office on or after January 1, 2013; however, such members would be eligible to participate in a separate retirement arrangement under the deferred compensation plan administered by MOSERS. As proposed, such member’s yearly contribution would be matched by the state up to 5% of the member’s annual salary.

Benefits for general employees, legislators, and statewide elected officials are funded under the Missouri State Employees’ Plan (MSEP). The proposed elimination of benefits for new legislators and statewide elected officials who first take office on or after January 1, 2013, **has no effect MOSERS’ current benefit obligation or current employer contributions** for the active

ASSUMPTION (continued)

members presently covered under the MSEP; however, the long-term effect of the proposed changes is a decrease in the employer normal cost of approximately 0.05% of MOSERS' total payroll, or approximately 0.03%, if the external 5% defined contribution rate is considered. For purposes of the deferred compensation plan, we have assumed that the eligible members will receive the maximum employer match of 5% of salary, and that the employer match is 100% vested.

ASSUMPTION (continued)

**Projected Change in Annual MSEP
 Employer Contributions**

Legislators and Elected Officials												
Projected Employer Contributions												
Fiscal Year	Val Payroll Projected	Pre 2013	Post 2013 Payroll (new hires)	Before Proposed Changes		Reduction Due to Proposed Changes	After Proposed Change					
				Rate	Dollars		DB Dollars	DB Rate*	DC Dollars	DC Rate**	Total Dollars	Rate*
2011	\$1,875,569,816	\$ 1,875,569,816	\$ 0									
2012	1,875,569,816	1,675,728,186	199,841,630									
2013	1,950,392,608	1,549,087,017	381,555,592	14.45%	\$ 281,860,632	\$ 47,512	\$ 281,655,796	14.44%	\$ 157,324	5.00%	\$ 281,813,120	14.43%
2014	2,028,616,313	1,474,486,234	554,180,079	15.07%	305,712,478	277,266	305,222,510	15.05%	212,703	5.00%	305,435,212	15.04%
2015	2,109,760,945	1,386,851,416	722,909,549	15.40%	324,903,189	370,239	324,260,691	15.37%	272,259	5.00%	324,532,950	15.38%
2016	2,194,151,404	1,305,391,098	888,760,306	14.38%	315,515,972	463,792	314,740,176	14.34%	315,004	5.00%	315,055,180	14.34%
2017	2,281,917,440	1,227,656,479	1,054,280,981	13.52%	308,515,241	535,482	307,619,027	13.48%	340,753	5.00%	307,959,759	13.50%
2018	2,375,194,158	1,153,087,321	1,220,106,838	13.10%	310,888,435	608,008	309,884,598	13.06%	395,834	5.00%	310,280,432	13.07%
2019	2,468,121,925	1,080,743,912	1,387,378,012	12.69%	313,204,672	666,807	312,104,698	12.65%	433,167	5.00%	312,537,865	12.66%
2020	2,566,946,802	1,011,010,844	1,555,855,958	12.30%	315,722,157	726,648	314,551,606	12.25%	465,909	5.00%	314,995,514	12.27%
2021	2,669,550,674	942,322,131	1,727,198,543	11.95%	319,007,720	778,087	317,733,216	11.90%	496,417	5.00%	318,229,633	11.92%
2022	2,776,301,501	875,852,963	1,900,448,538	11.60%	322,050,974	830,732	320,495,262	11.55%	524,980	5.00%	321,220,242	11.57%

*DB and Total Contribution Rates are based on open group DB Payroll.

**DC Contribution Rate is based on DC Payroll for future Legislators and Elected Officials only.

Benefits for judges are funded under a separate plan known as the Judicial Plan. The proposed elimination of benefits for new judges who first take office on or after January 1, 2013, has no effect on the current benefit obligation **but has a material impact on current employer contributions for the active members currently covered under the Judicial Plan.**

**Projected Change in Annual Judicial Plan
 Employer Contributions**

Judicial Plan												
Projected Employer Contributions												
Fiscal Year	Val Payroll Projected	Pre 2013	Post 2013 Payroll (new hires)	Before Proposed Changes		Estimated Reduction Due to Proposed Changes	After Proposed Change					
				Rate	Dollars		DB Dollars	DB Rate*	DC Dollars	DC Rate**	Total Dollars	Rate***
2011	\$45,888,020	\$ -	\$45,888,020									
2012	45,888,020	0	45,888,020									
2013	47,723,541	1,820,377	45,903,164	56.92%	\$ 27,164,259	\$ (28,735,846)	\$ 55,809,066	121.58%	\$ 91,019	5.00%	\$ 55,900,085	117.13%
2014	49,652,482	6,183,832	43,468,650	57.89%	28,732,244	(24,711,683)	55,134,755	122.29%	309,192	5.00%	53,443,927	107.68%
2015	51,617,782	10,582,283	41,035,499	57.30%	29,576,989	(21,347,856)	30,395,751	122.81%	329,114	5.00%	50,924,845	98.66%
2016	53,682,493	14,770,157	38,912,336	56.15%	30,142,720	(17,833,622)	47,237,834	121.40%	738,508	5.00%	47,976,342	99.37%
2017	55,829,793	19,283,615	36,546,178	55.08%	30,751,000	(14,123,400)	48,910,269	120.15%	964,181	5.00%	44,874,450	90.38%
2018	58,062,984	24,007,826	34,055,159	54.26%	31,504,975	(10,528,442)	40,833,026	119.90%	1,200,391	5.00%	42,033,417	72.39%
2019	60,385,504	28,863,862	31,521,642	53.50%	32,306,245	(6,839,370)	37,722,422	119.67%	1,443,193	5.00%	39,165,615	64.86%
2020	62,800,924	33,666,991	29,133,933	52.78%	33,146,328	(3,340,656)	34,808,654	119.46%	1,683,350	5.00%	36,486,964	58.10%
2021	65,312,961	38,386,998	26,925,968	52.12%	34,041,115	5,873	32,115,893	119.27%	1,919,350	5.00%	34,035,242	52.11%
2022	67,925,479	43,283,727	24,641,752	51.48%	34,968,087	3,455,928	29,347,923	119.10%	2,164,186	5.00%	31,512,109	46.39%

*DB Contribution Rate is based on closed group DB Payroll.

**DC Contribution Rate is based on DC Payroll for future hires only.

***Total Contribution rate is based on open group payroll for illustrative purposes only.

ASSUMPTION (continued)

Closing the Judicial Plan to new hires will lead to decreasing active member payroll over time.

The amortization of the unfunded actuarial liability as a level percent of the declining closed group active member payroll is materially higher than the 30 year open amortization in the current plan. This leads to a large increase in contributions early on, followed by future decreases. The long-term expectation is that the Judicial Plan will reach

100% funded when the last active members retire and require no additional contributions.

Under this proposal, the state would not begin recognizing savings until 2021. For purposes of the deferred compensation plan, we have assumed that the eligible members will receive the maximum employer match of 5% of salary, and that the employer match is 100% vested.

Closing the Judicial Plan to new hires will eventually result in the plan covering only retirees and beneficiaries. A closed plan of retirees and beneficiaries may require a different investment policy weighted more to fixed income investments. Such a policy is likely to yield a lower rate of return than the current assumed 8.5% and therefore may result in additional contributions to accommodate lower earnings expectations.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
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GENERAL REVENUE

<u>Savings</u> - Net decrease in annual contributions	\$19,797	\$138,633	\$182,120
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<u>Cost</u> - Net increase in annual contributions - Judicial Plan	<u>(\$11,973,269)</u>	<u>(\$12,355,842)</u>	<u>(\$10,673,928)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$11,953,472)</u>	<u>(\$12,217,209)</u>	<u>(\$10,491,808)</u>
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OTHER STATE FUNDS

<u>Savings</u> - Net decrease in annual contributions	\$19,797	\$138,633	\$182,120
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<u>Cost</u> - Net increase in annual contributions - Judicial Plan	<u>(\$11,973,269)</u>	<u>(\$12,355,842)</u>	<u>(\$10,673,928)</u>
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ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>(\$11,953,472)</u>	<u>(\$12,217,209)</u>	<u>(\$10,491,808)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

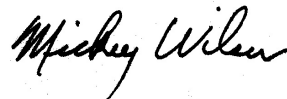
FISCAL DESCRIPTION

The proposed legislation modifies the retirement plans for judges, statewide elected officials and members of the General Assembly who first take office on or after January 1, 2013.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Missouri State Employees' Retirement System
Governor's Office
State Auditor's Office
State Treasurer's Office
Secretary of State's Office
Missouri House of Representatives
Missouri Senate



Mickey Wilson, CPA
Director
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